

**CMP: INR 211**

**Rating: Accumulate**

**Target Price: INR 236**

**Stock Info**

BSE	500477
NSE	ASHOKLEY
Bloomberg	AL:IN
Reuters	ASOK.NS
Sector	Auto-LCVS & HCVS
Face Value (INR)	1
Equity Capital (INR mn)	2,936
Mkt Cap (INR Mn)	623,529
52w H/L (INR)	219/144
Avg Yearly Vol (in 000')	14,775

**Shareholding Pattern %**

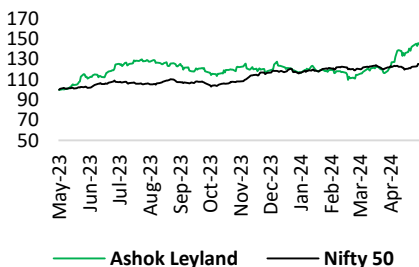
(As on March, 2024)

Promoters	51.53
Public	20.48
Shares Underlying DRs	14.73
Non Promoter- Non Public	13.26

**Stock Performance (%)**

	1m	3m	12m
Ashok Leyland	3.2	8.8	20.3
Nifty	1.2	12.	22.5

**Ashok Leyland Vs Nifty**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

Ashok Leyland Ltd (AL) has reported a stellar set of numbers. Standalone revenue stood at INR 112,191 Mn, slightly below our estimate of INR 113,440 Mn registering a growth of -3.1% YoY/ up by 21.5% QoQ. In the M&HCV Bus segment, AL emerged as the market leader with a MS gain of 5.8%. EBITDA stood at INR 15,921 Mn, above our estimate of INR 15,020 Mn, Registering a growth of 24.8%YoY/ 42.9%QoQ. On the margins front, EBITDA margin expansion by 316bps YoY/212 bps QoQ to 14.1%, above our estimate of 13.2% led by higher than the expected gross margin (increase by 379bps YoY/42 bps QoQ to 28.2% in Q4FY24). Standalone PAT saw an increase of 19.8%YoY/ 55.2% QoQ to INR 9,004 Mn in line with our estimate of INR 9,075 Mn. EPS stood at INR 3.07 in Q4FY24 against INR 1.99 in Q3FY24.

**Traction in Defense business**

Defense is a key focus area, with the top line in this sector growing more than twofold in FY24, nearly reaching the INR 1,000 cr mark. Company has have a strong order pipeline and excellent visibility for the coming years, prompting to set higher targets. Additionally, the power solutions business, another high-margin segment, saw over 40% growth in FY24.

**Expansion in EV business**

Switch and Ohm are progressing well, with the first eLCVs delivered and a second launching soon. Preparations are underway to supply 950 electric buses to Delhi and 320 to Bangalore, with advanced development of the e-one electric bus for Europe and the Middle East. Our E-MaaS subsidiary manages electric bus operations in Bangalore, Ahmedabad, Bihar, and Chandigarh, supported by a strong balance sheet.

**Outlook and valuation**

There are a lot of actions that are kind of happening on scragpage. Tiller segment activity is to benefit from construction and mining activity. Expect LCV to grow further owing to demand from last-mile transportation (e-commerce), Agriculture and allied sectors. Continue to grow exports, defence, PSB, LCV and part along with its core M&HCV business. we foresee a CAGR growth of ~9.6% in revenue, 9.5% in EBITDA, and a 9.8% increase in PAT. Additionally, the company plans to improve operational efficiencies, reduce material costs, and maintain pricing discipline to gradually expand EBITDA margins and generate strong positive cash flows. We anticipates a slower growth in H1FY25 due to general elections, with demand poised to rebound in H2FY25. **Value AL at a PE multiple of 20x for the parent automaker for its FY27E EPS of INR 12.2 (Include INR ~9 for HLF). We maintain our rating to Accumulate and value it with SOTP valuation for a target price of INR 236. (Earlier target price of INR 208 per share)**

**Exhibit 1: Financial Overview**

YE March	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
(INR Mn)							
FY24	3,83,670	46,066	27,116	8.9	12.0%	30.4%	23.6
FY25E	4,22,107	51,140	31,046	10.6	12.1%	32.0%	19.9
FY26E	4,60,563	55,668	33,204	11.3	12.1%	28.9%	18.6
FY27E	5,05,435	60,549	35,938	12.2	12.0%	26.7%	17.2

Source: Arihant Research, Company Filings

<b>Quarterly Results</b>						
<b>Standalone (INRm)</b>	<b>Q4FY24</b>	<b>Q3FY24</b>	<b>Q4FY23</b>	<b>QoQ%</b>	<b>YoY%</b>	
Revenue	1,12,191	92,311	<b>1,15,792</b>	21.5%	-3.1%	
Other operating income	476	420	465	13.4%	2.4%	
Net Sales	1,12,667	92,730	<b>1,16,257</b>	21.5%	-3.1%	
Cost of material consumed	74,925	65,554	80,802	14.3%	-7.3%	
Purchases of stock-in-trade	4,245	3,685	3,354	15.2%	26.6%	
Changes in inventories	1,736	(2,261)	3,731	-176.8%	-53.5%	
Raw Material	80,906	66,977	87,887	20.8%	-7.9%	
Staff Cost	5,535	5,695	5,919	-2.8%	-6.5%	
Other expenditure	10,305	8,919	9,693	15.5%	6.3%	
Total Expenditure	96,746	81,591	1,03,499	18.6%	-6.5%	
EBITDA	15,921	11,139	<b>12,757</b>	42.9%	24.8%	
Depreciation	1,797	1,785	1,838	0.7%	-2.2%	
EBIT	14,124	9,355	10,919	51.0%	29.4%	
Interest	592	616	628	-3.9%	-5.6%	
Other Income	1,179	300	389	292.6%	202.9%	
PBT	14,711	9,039	11,245	62.8%	30.8%	
Current Tax	4,854	2,847	4,004	70.5%	21.2%	
Deferred tax	157	385	(273)	-59.3%	-157.4%	
Tax	5,010	3,232	3,731	55.0%	34.3%	
Adjusted PAT	9,701	5,806	<b>7,514</b>	67.1%	29.1%	
Extraordinary	(696.6)	(5.9)	-			
Reported PAT	9,004.1	5,800.3	7,514.1	55.2%	19.8%	
EPS	2.99	1.99	2.56	50.3%	16.8%	
Total Volumes (Nos)	56,269	47,241	59,697	19.1%	-5.7%	
Net Realisation (INR)	20,02,291	19,62,916	19,47,446	2.0%	2.8%	
EBITDA / Vehicle (INR)	2,82,946	2,35,797	2,13,703	20.0%	32.4%	
<b>Margins</b>	<b>Q4FY24</b>	<b>Q3FY24</b>	<b>Q4FY23</b>	<b>QoQ (Bps)</b>	<b>YoY (Bps)</b>	
Gross margins	28.2%	27.8%	24.4%	42Bps	379Bps	
EBITDA	14.1%	12.0%	11.0%	212Bps	316Bps	
Adjusted PAT	8.6%	6.3%	6%	235Bps	215Bps	
Effective Tax Rate	34.1%	35.8%	33.2%	-170Bps	88Bps	
<i>Cost Analysis</i>						
RM/Net Sales	71.81%	72.23%	75.60%	-42Bps	-379Bps	
Other Exp/Net Sales	9.15%	9.62%	8.34%	-47Bps	81Bps	
Staff cost/Net sales	4.91%	6.14%	5.09%	-123Bps	-18Bps	
<b>Volume (In Units)</b>	<b>Q4FY24</b>	<b>Q3FY24</b>	<b>Q4FY23</b>	<b>QoQ%</b>	<b>YoY%</b>	
MHCV	29720	27250	33830	9.1%	-12.1%	
LCV	10,440	16,863	3,981	-38.1%	162.2%	
Total Sales	40,160	44,113	37,811	-9.0%	6.2%	
EXPORT	50,600	60,976	41,792	-17.0%	21.1%	
M&HCV	7,429	2,235	6,661	232.4%	11.5%	
LCV	8,680	893	15,225	872.0%	-43.0%	
Total Exports	16,109	3,128	21,886	415.0%	-26.4%	
Total Volume	56,269	47,241	59,697	19.1%	-5.7%	

Source: Arianth Research, Company Filings

**Ashok Leyland Q3FY24 Earnings Conference Call**

**Outlook:** There are concerns due to external factors, particularly European uncertainty and issues in the UK, company remain positive about new orders and the launch of interesting products in the LCV segment

**Margin**

Company aspirations for mid-teen EBITDA margins by focusing on cost reduction and efficiency improvements.

**Capex** for FY24 was at INR 500 cr, with an increase to 500-700 cr planned for FY25. Investments in switch operations are lower than FY24, with no additional investment needed in H1. Switch turned EBITDA positive in FY24.

**Hinduja Leyland Finance** has an AUM of 38,000 cr, and Hinduja Housing Finance has about 11,000 cr, totaling nearly 50k cr. Despite a GNPA of about 4.5% and NNPA around 2.25-2.3%, the company is well-managed and diversified, with only 27-30% in CV and investments in 2w, 3w off-road vehicles, low-ticket properties, and paper buyouts.

In Q4FY24 IC bus and EV bus segments have shown significant progress.

The company is set to deliver the first set of fuel cell buses to NTPC and already delivered to MGL soon.

**Order book**

A strong order book of 1500 and the company has 950 to deliver in Delhi and another 320 to deliver in Bangalore and then few more, So the company has to ramp up on various aspects of production, sourcing capabilities.

The company is launching new products, including a 12-meter low-floor bus for Delhi and Bangalore, and a brand new E1 that has been developed over the last two years.

**CV:** Despite a challenging start to the year, the CV numbers are expected to bounce back, showing strong performance in April. The focus on the ground is very robust, which bodes well for the CV industry.

**LCV** segment has shown good growth, supported by stable diesel prices and a strong market. May is looking promising based on current trends and inquiries, suggesting a good year ahead for the company.

**Industry:** The company is optimistic about the macro environment, citing a prediction of a good monsoon, a stable government post-elections, and a flurry of robust economic measures. The country is poised to grow at a faster pace in the foreseeable future. All macroeconomic factors are in favor.

**M&HCV:** Company remain optimistic about M&HCV despite expecting negative growth in Q1 and Q2, with recovery and growth in H2.

For FY24, overall growth of 3-4% in the M&HCV segment. The first seven months have seen a 7-8% increase due to a high base number and OBD norms, with the industry growing 8-9% and April growth at 10%, creating a positive environment.

**Replacement demand:** Company anticipate strong replacement demand as older BS4 vehicles are converted to newer technology in BS6.

**Tax:** There is a likelihood of lower tax rates, which could benefit the industry.

**Cost savings initiative:** Costs tend to rise, company is committed to cost-saving measures and increasing productivity. Ambition is to continually save costs across all parameters.

**Fleet:** Fleet average utilization has increased, a trend that started during COVID-19 and continues positively. Might need additional capacity in 2-3 years and plan to create a common production line for EV and traditional buses.

**E-Bus Tender**

Progress in e-bus tenders, holding a 1,500 order book and actively participating in new tenders. Focus is on building a profitable tender book, especially in green mobility, with smaller versions launching in the next few months.

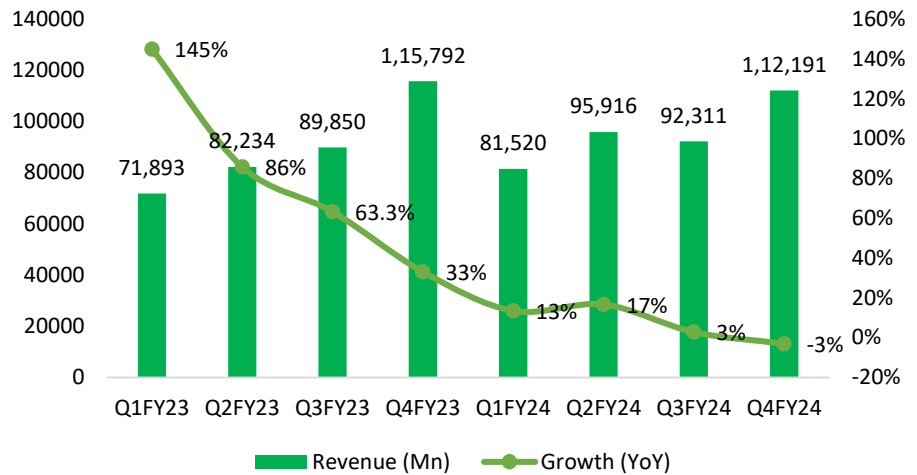
**Defence:** Defence has done 2x growth in FY24 to reach ~1,000 cr. The order pipeline and viability are strong, setting new targets.

**Gross margins** benefit from robust performance across all segments, with significant contributions from defence and power solutions.

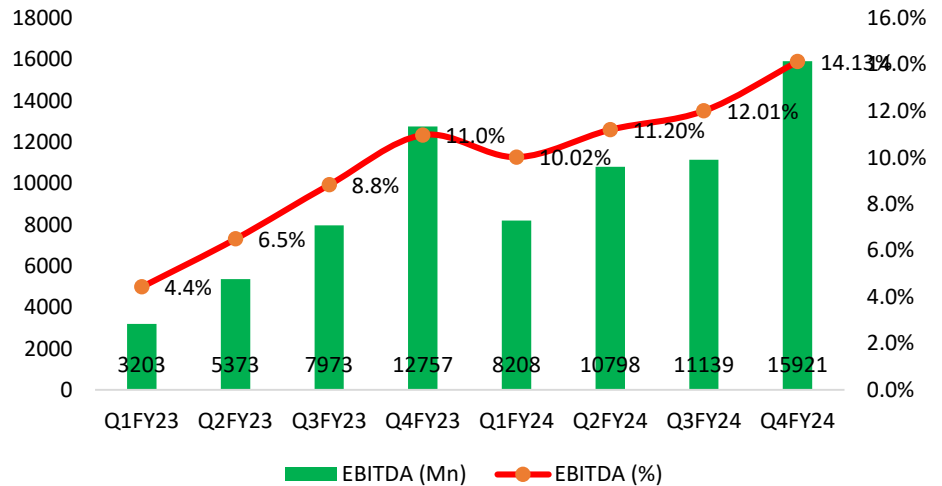
**New Products:** The company plans to launch 16 new products in the 2 to 3.5 tons M&HCV segment in FY25 which should boost its market share. The company is looking to improve its product positioning in the market to the next level.

**Reverse Merger:** The company expects the reverse merger process to be back on track and to take a couple of more quarters. Company's believe that there is a value upside that will be seen not only for Hinduja Leyland Finance, but also for Ashok Leland, because the investment that is there in Ashok Leyland's book is not reflective of the value that Hinduja Housing Finance has.

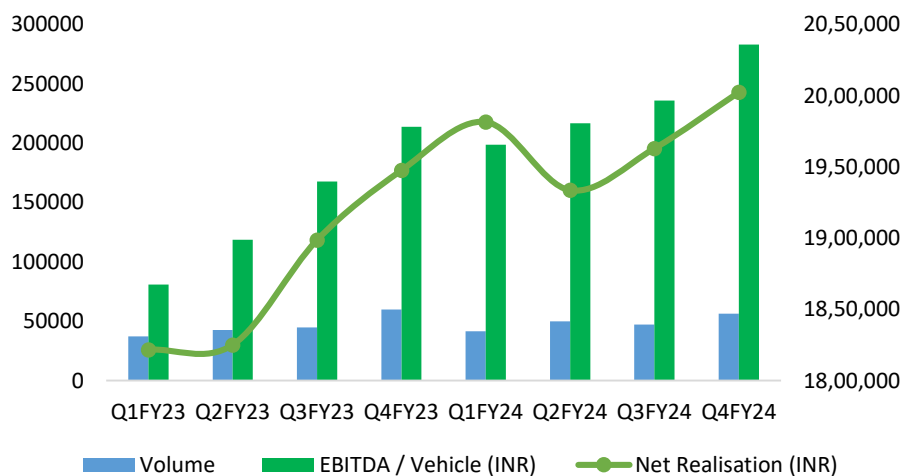
**Exhibit 3: Decent top line performance in Q4FY24**



**Exhibit 4: Margin expansion continued**



**Exhibit 5: Strong volume growth**



<b>P&amp;L (INR mn) Standalone</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Net sales	3,61,441	3,83,670	4,22,107	4,60,563	5,05,435
YoY (%)	66.7	6.2	10.0	9.1	9.7
Raw material cost	2,78,492	2,79,120	3,05,183	3,31,605	3,63,913
Employee Cost	21,139	22,334	25,684	29,536	33,967
Admin Expenses	32,504	36,151	40,100	43,753	47,005
Total expenses	3,32,134	3,37,605	3,70,967	4,04,895	4,44,886
EBIDTA	29,307	46,066	51,140	55,668	60,549
(%)	8.1%	12.0%	12.1%	12.1%	12.0%
Depreciation	7,320	7,178	7,576	8,529	9,017
EBIT	21,987	38,888	43,564	47,139	51,533
Interest	2,891	2,494	3,977	4,566	5,167
Other income	1,161	2,466	2,515	2,565	2,617
PBT	20,258	38,859	42,102	45,138	48,983
Exchange gain / (loss) on swap contracts					
(-) Tax	7,303	11,743	11,056	11,934	13,045
Tax/ PBT	36.0	30.2	26.3	26.4	26.6
<b>PAT</b>	<b>12,955</b>	<b>27,116</b>	<b>31,046</b>	<b>33,204</b>	<b>35,938</b>
YoY (%)	4079.0	109.3	14.5	7.0	8.2
PAT(%)	3.6%	7.1%	7.4%	7.2%	7.1%
Extraordinary	846.10	(937.20)	-	-	-
<b>Reported Profit</b>	<b>13,801</b>	<b>26,179</b>	<b>31,046</b>	<b>33,204</b>	<b>35,938</b>

<b>B/Sheet (INR mn) Standalone</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25E</b>	<b>FY26E</b>	<b>FY27E</b>
Equity capital	2,936	2,936	2,936	2,936	2,936
Reserves	81,322	85,167	1,02,753	1,21,561	1,41,844
Net worth	84,258	88,104	1,05,689	1,24,497	1,44,780
Total Loans	50,283	56,693	65,668	74,821	84,158
Deferred Tax	5,035	5,563.10	-	-	-
<b>Total Liabilities</b>	<b>1,39,576</b>	<b>1,50,360</b>	<b>1,71,356</b>	<b>1,99,318</b>	<b>2,28,938</b>
Gross block	1,01,722	1,05,722	1,10,722	1,16,722	1,23,722
Less: Acc. Dep	38,064	45,242	52,818	61,347	70,363
Net block	63,658	60,480	57,904	55,375	53,358
Work in progress	1,325	2,015	2,015	2,015	2,015
Investments	42,195	56,798	53,507	53,907	54,307
Inventories	36,154	36,236	37,625	40,883	44,866
Debtors	40,621	35,697	34,694	37,854	41,543
Cash	5,013	34,382	24,825	31,695	60,645
Loans and advances	52,198	49,791	66,625	92,730	98,563
Current assets	1,33,986	1,56,106	1,63,770	2,03,162	2,45,617
Current liabilities	78,110	70,860	90,551	98,460	1,08,053
Provisions	23,477	54,179	15,289	16,682	18,307
Net current assets	32,399	31,067	57,930	88,021	1,19,257
<b>Total Assets</b>	<b>1,39,576</b>	<b>1,50,360</b>	<b>1,71,356</b>	<b>1,99,318</b>	<b>2,28,938</b>

Source: Aриhant Research, Company Filings

Cash Flow Standalone	FY23	FY24	FY25E	FY26E	FY27E
Net profit	13,801	26,179	31,046	33,204	35,938
Depreciation	7,320	7,178	7,576	8,529	9,017
Deferred tax	-497	-1,111	-1,111	-1,111	-1,111
Change in W/C	-26,855	25,317	-35,921	-22,723	-1,788
Operating cash flow	-6,231	57,563	1,589	17,899	42,055
Capex	-3,384	-4,690	-5,000	-6,000	-7,000
Investments	660	-12,821	2,353	-401	-401
Investing cash flow	-2,723	-17,511	-2,647	-6,401	-7,401
<b>FCF</b>	<b>-9,615</b>	<b>52,873</b>	<b>-3,411</b>	<b>11,899</b>	<b>35,055</b>
Dividend	-5,984	-11,350	-13,461	-14,396	-15,655
Equity	3,072	(10,983)	-	-	-
Debt	6,410	6,410	8,974	9,154	9,337
Financing cash flow	3,498	-15,923	-4,487	-5,243	-6,318
Net change in cash	-5,457	24,129	-5,545	6,255	28,336
Opening cash	10,470	5,013	34,382	24,825	31,695
Closing cash	5,013	34,382	24,825	31,695	60,645
Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
EPS	4.7	8.9	10.6	11.3	12.2
Cash EPS	7.2	11.4	13.2	14.2	15.3
Book value	29	30	36	42	49
P/E (x)	44.8	23.6	19.9	18.6	17.2
EV/EBDITA (x)	21.2	12.7	11.8	10.9	9.7
P/B (x)	7.3	7.0	5.9	5.0	4.3
EV/Sales	1.7	1.5	1.4	1.3	1.2
ROCE	13%	18%	22%	20%	19%
ROE	18%	30%	32%	29%	27%
Dividend Yield	0.8%	1.5%	1.8%	1.9%	2.1%
Gross asset turn	2.8	2.5	2.6	2.5	2.4
Days outstanding					
Inventory	47	47	45	45	45
Debtors	36	36	30	30	30
Creditors	92	88	90	90	90

Source: Aриhant Research, Company Filings

**Arihant Research Desk**Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880